

RIGGS, ABNEY, NEAL, TURPEN, ORBISON & LEWIS

A PROFESSIONAL CORPORATION
ATTORNEYS AND COUNSELORS AT LAW

FRISCO BUILDING
502 WEST SIXTH STREET
TULSA, OKLAHOMA 74119-1010
(918) 587-3161
Fax (918) 587-9708

GREGORY W. ALBERTY
JACK R. ANDERSON
RYAN J. ASSINK
J. STEVEN BARKER
DONALD M. BINGHAM
WILLIAM A. BOWLES
RICHARD B. BOYLE
H. JAMES BRIGGS
PETER W. BRODICK
SCOTT W. BYRD
DAVID C. CAMERON
MICHELLE W. CARTER
PHYLLIS J. COFFMAN
COLBY L. COOK
DEBORAH R. DAWSON
TINA LOUISE DIAZ
FRANCISCO LUIS DONGO
GLENN S. DORRIS
JANET S. DUMONT
IRA L. EDWARDS, JR.
GEORGE M. EMERSON
ROYCE B. FENTON
JAMES L. FOLTNER
RICHARD A. GANN
RICHARD T. GARREN
D. SHARON GENTRY
STEPHEN E. HALE
MELVIN C. HALL
SHARON E. HAMM
CLINTON L. HOOKER
ERIK S. HOUGHTON
ROBERT E. HOWARD
TINA L. IZADI
STEVEN JANISZEWSKI
KIEMONN L. JONES

STEPHEN A. JUSTINOV
DAVID J. KATALINAS
SARAH G. KIENY
SCOTT P. KIRTLEY
DAVID M. KINLEY
KRISTOPHER E. KOEPEL
TERRY D. KORDELSKI
ADRIANA L. KUPPER
JOSEPH P. LENNART
MICHELLE L. LESTER
C. S. LEWIS, III
MARY JEAN LITTLE
JOHN D. LUTON
SHANNON M. MCMURRAY
JANET G. MALOW
JOHN ROSS MALOY
RICHARD M. MILDREN
GLENN V. MIMS
J. LYON MORSEHEAD
KAREN L. MORELAND
JANICE LOGAN MORROW
ROBERT A. NANCE
CATHERINE NAPIER
GARY L. NEAL
MARK L. NELMS
JAMES C. ORBISON
BHAVIN V. PATEL
GISELE K. PERRYMAN
CHARLES L. PETERS
SON V. PHAM
JAMES R. POLAN
RICHARD P. POORMON
TIMOTHY S. POSEY
VICTORIA S. RACKLEY
FRED RAHAL, JR.

LISA R. RIGGS
M. DAVID RIGGS
STEPHEN B. RILEY
RANDALL A. RINGQUEST
MARY J. ROUNDS
JEFFREY D. RUFF
GRETCHEN M. SCHILLING
MARK W. SCHILLING
WILLIAM C. SEARCY
DAVID A. SIMMENTAL
ROBERT P. SKETH
KENNETH M. SMITH
BETTY J. SOMMARS
JOHN P. STAFIRA
BEVERLY A. STEWART
MICHELLE M. TANNER
DANA L. TARTAR
STEPHANIE L. THEBAN
DAVID H. THOMAS
HARLEY W. THOMAS
REX W. THOMPSON
STEPHANIE P. TOLLEFSEN
BETTY TSAMIS
CHRISTOPHER L. TURESON
MICHAEL C. TURPEN
PHILIP J. VADEBONCOEUR
LINDA VAN ARKEL-GREUBEL
DIANNE VAN VOORHEES
KAREN A. WALKER
KAREN GARDEN WALSH
GARY L. WATTS
SHARON K. WEAVER
DOUGLAS A. WILSON
JERRY L. WITT

GARY W. WOOD
JENNIFER L. ZUYUS

Of Counsel
Benjamin P. Abney
John G. Canavan, Jr.
E. Bryan Hansen
D. Matt Hopkins

Licensed in
Arizona
Arkansas and
Oklahoma
California and
Oklahoma
Colorado
Colorado and
Louisiana
Colorado and New York
Oklahoma
Connecticut
District of Columbia
Illinois
Maryland and
Oklahoma
Nebraska
New Mexico and
Oklahoma
South Carolina and
Oklahoma
Texas
Texas and Oklahoma
Wyoming

October 17, 2003

RECORDATION NO. 24675 FILED

NOV 05 '03

11:55 AM

Via Federal Express Delivery

Vernon Williams, Secretary
Surface Transportation Board
1925 K Street, N.W., Suite 700
Washington, DC 20423-0001

Dear Secretary Williams:

Enclosed please find the original and one certified copy of the document described below to be recorded pursuant to 49 U.S.C. § 11301.

This document is a Memorandum of Guaranty and Collateral Agreement, a primary document, dated as of July 25, 2003. Please record this document under the next available recordation number.

The names and addresses of the parties to the documents are as follows:

Secured Party/Agent:

Bank of Oklahoma, N.A.
P.O. Box 2300
Tulsa, OK 74192

Debtor:

Palouse River and Coulee City Railroad, Inc.
315 West 3rd Street
Pittsburg, KS 66762

A description of the collateral covered by the Memorandum of Guaranty and Collateral Agreement is identified on the Schedule attached thereto, and includes collateral now owned and hereafter acquired.



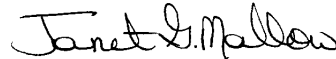
Page 2

A fee of \$30.00 is enclosed. Please return the original and any extra copies not needed by the Board for recordation to:

Riggs, Abney, Neal, Turpen, Orbison & Lewis
502 West Sixth Street
Tulsa, OK 74119-1010
Attn: Wendy Walls

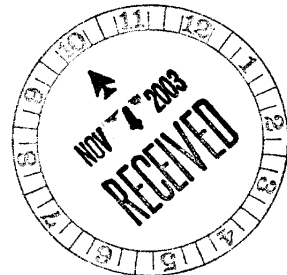
A short summary of the document to appear in the index follows: Memorandum of Guaranty and Collateral Agreement between Bank of Oklahoma, N.A., P.O. Box 2300, Tulsa, Oklahoma 74192, and Palouse River and Coulee City Railroad, Inc., 315 West 3rd Street, Pittsburg, Kansas 66762, covering the equipment described in the Schedule attached thereto, whether now owned or hereafter acquired.

Very truly yours,



Janet G. Mallow
FOR THE FIRM

Enclosures



MEMORANDUM OF GUARANTY AND COLLATERAL AGREEMENT

This Memorandum of Guaranty and Collateral Agreement, dated as of July 25, 2003, is by Palouse River And Coulee City Railroad, Inc. (the "Debtor") and Bank of Oklahoma, N.A., as Agent for the Lenders pursuant to the Credit Agreement (the "Credit Agreement"), dated as of July 25, 2003, among Watco Companies, Inc. (the "Borrower"), the Lenders listed therein (the "Lenders"), and the Agent.

1. The Lenders have made loans to the Borrower pursuant to the terms of the Credit Agreement for the purpose of financing the operating needs of the Borrower and its affiliates (including Debtor). Such loans are secured by the Debtor's assets pursuant to the Guaranty and Collateral Agreement, dated as of July 25, 2003 (the "Guaranty and Collateral Agreement").

2. Pursuant to the Guaranty and Collateral Agreement, the Debtor grants to the Lenders a lien on and security interest in all of the Debtor's right, title and interest in and to the Rolling Stock (as defined in the Guaranty and Collateral Agreement) identified on the Schedule attached hereto, whether now owned or hereafter acquired, pursuant to Section 3 of the Guaranty and Collateral Agreement.

In witness whereof, each of the parties hereto have caused this Memorandum of Guaranty and Collateral Agreement to be executed by it's duly authorized officer as of the date first written above.

"Debtor"

**PALOUSE RIVER AND COULEE CITY
RAILROAD, INC.**

RECORDATION NO. 24675 FILED

NOV 03 '03 11-55 AM

SURFACE TRANSPORTATION BOARD

By *Randall Readinger*
Randall Readinger, Chief Financial
Officer

"Agent"

BANK OF OKLAHOMA, N.A.

By *Robert D. Mattax*
Robert D. Mattax,
Senior Vice President

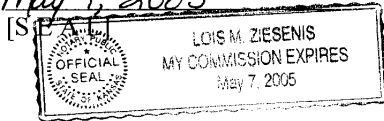
STATE OF Kansas)
) ss.
COUNTY OF Crawford)

On this 23rd day of October, 2003, before me personally appeared Randall Readinger, to me personally known, who being by me duly sworn, says that he is the Chief Financial Officer of Palouse River And Coulee City Railroad, Inc., that said instrument was signed on behalf of said corporation, and he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

My Commission Expires:

Lois M. Ziesenis
Notary Public

May 7, 2005



STATE OF OKLAHOMA)
) ss.
COUNTY OF TULSA)

On this ____ day of _____, 2003, before me personally appeared Robert D. Mattax, to me personally known, who being by me duly sworn, says that he is the Senior Vice President of Bank of Oklahoma, N.A., that said instrument was signed on behalf of Bank of Oklahoma, N.A., and he acknowledged that the execution of the foregoing instrument was the free act and deed of Bank of Oklahoma, N.A.

My Commission Expires:

[Signature]
Notary Public

12-01-01
[SEAL]
My Commission #
01017544

Schedule "A"

Included in the property covered by the aforesaid Guaranty and Collateral Agreement are locomotives, cabooses, flat cars, bulkhead flat cars, boxcars, gondolas, coal cars, open top hopper cars, covered hopper cars, woodrack cars, specialty cars (office, club and power), yard cars, system cars and other rail cars intended for use related to interstate commerce, or interests therein, owned by Palouse River And Coulee City Railroad, Inc. at the date of said Guaranty and Collateral Agreement or thereafter acquired by it or its successors as owners of the lines of railway covered by the Guaranty and Collateral Agreement.